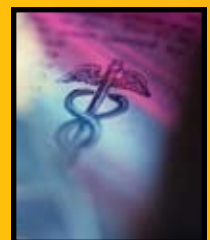




# **VISIONARY LEADERSHIP: INNOVATIVE RESULTS**

**Four-Year Summary Report  
2007 – 2011**

**California Department of Insurance  
Steve Poizner, Commissioner**







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## EXECUTIVE SUMMARY

Steve Poizner was California's third elected Insurance Commissioner. Almost immediately upon assuming office, Commissioner Poizner ordered the development of the first ever top-down review and Strategic Plan for the Department.

The plan outlined specific goals, objectives and specific action items, including:

- Increasing affordable options for insurance consumers
- Ensuring consumers are well-informed about options and responsibilities
- Protecting insurance consumers from bad actors and unfair practices
- Making the department the standard for consumer protection agencies

These objectives all fell under one overarching priority: Transforming CDI into the most efficient, effective and best run consumer protection agency in the country. And throughout his term, Commissioner Poizner and the employees of CDI have remained steadfastly committed to that overarching priority by ensuring that consumers are protected, fostering a vibrant and stable insurance marketplace, maintaining an open and equitable regulatory process and enforcing the law fairly and impartially.

Commissioner Poizner accomplished many "firsts" for California consumers throughout his term, including:

- Achieved a permanent 13 percent reduction in the operating budget of the department totaling \$17 million in savings and efficiencies
- With the Commissioner's reduction of fees on agents, brokers and insurers, a total of \$20 million was sent back into the marketplace for the first time ever
- Created a near-paperless workplace by infusing technology into this state agency
- Oversaw nearly 2,800 insurance fraud-related arrests in the first three years, more than any previous insurance commissioner in any three year span
- Conducted first-ever terror finance probe by an insurance commissioner in the United States, resulting in hundreds of millions of dollars diverted from Iran

- Established first-ever PPO health insurance report card in the United States
- Paved the way for California drivers to purchase pay-as-you-drive auto insurance for the first time
- Established first-of-its-kind title sales licensing system to successfully eliminate illegal kickbacks to realtors
- Developed first-in-the-nation rescission regulations to stop health insurers from canceling health insurance after claims have been made
- Initiated largest-ever enforcement action in the United States against the largest health insurer in the country for hundreds of thousands of alleged claims handling violations

This report also details notable achievements within these areas. Specifically, the report is divided by key issue areas, including:

- Fighting to Keep California Consumers First
  - Ending Illegal Rescissions
  - Targeting Insurance Fraud
- Being There for Disaster Victims
  - Holding Wildfire Insurance Recovery Forums
  - Recovering Claims for Wildfire Survivors
- Increasing Competition in the Marketplace
  - Achieving Auto and Homeowners Insurance Rate Reductions for Consumers
  - Increasing Options for Drivers Through Pay-As-You-Drive Auto Insurance
- Improving Department Efficiency
  - Decreasing Operating Expenses
  - Reducing Brokers' Fees
- Reforming the Health Insurance Market
  - Increasing Transparency for All Health Insurance Filings
  - Creating the Nation's First PPO Report Card
- Making Environmental advances
  - Approving First Homeowners Green Rebuilding Policies
  - Creating a near-paperless environment through strategic investments in technology







In creating this report, Commissioner Poizner had two primary goals in mind:

Be accountable to the public for his time in office by providing, in detail, an overview of his and CDI's priorities, the challenges they encountered and their achievements during his term; and

Provide a reference guide for future Insurance Commissioners to examine previous and/or ongoing issues and the ways in which they were confronted during Commissioner Poizner's term.



## DEPARTMENT OF INSURANCE OVERVIEW

CDI's overarching mission includes regulating the business of insurance in California and ensuring that insurers are able to pay the legitimate claims of policyholders.

CDI licenses and monitors more than 1,500 insurers and 300,000 agents and brokers, approves insurance products before they reach the market and oversees the stability of the insurance market by carefully monitoring the fiscal health of insurers doing business here.

In the normal course of business, CDI annually processes more than 8,000 rate applications, issues approximately 200,000 licenses (new and renewals) and performs hundreds of financial reviews and examinations of insurers doing business in California.

CDI annually receives more than 300,000 consumer assistance calls, investigates more than 35,000 consumer complaints and, as a result, recovers more than \$48 million per year for consumers. The Department receives and processes roughly 24,000 suspected fraudulent referrals and initiates investigations that result in roughly 1,000 arrests annually. CDI's consumer education efforts include a number of publications on topics such as California's Low Cost Auto Insurance program, senior issues and disaster preparedness and response. In addition to consumer hotline and office services, CDI holds more than 200 community events around the state, providing outreach and education on important and timely insurance-related matters.









## FIGHTING TO KEEP CALIFORNIA CONSUMERS FIRST

Since day one, Commissioner Poizner has worked to serve the most pressing needs of California consumers, taking full advantage of his regulatory power to advocate for all Californians – from the recently unemployed, to seniors and policyholders of every kind of insurance product.

### *Ending Illegal Rescissions*

In June 2009, Commissioner Poizner introduced first-of-their-kind regulations aimed at ending the practice of unfair or illegal rescissions in the individual health insurance market. Illegal rescissions occur when an insurer inappropriately rescinds health insurance policies for individuals after they file claims for medical treatment. Commissioner Poizner also took the extra step of securing offers of reinstated coverage from the three largest insurers in California for 4,000 customers whose policies CDI alleges were illegally rescinded:

- Anthem Blue Cross: \$1 million fine, offer of new insurance for those who had their insurance policies rescinded, reimburse consumers for out-of-pocket expenses and take corrective action.
- Blue Shield: Offer of new insurance for those who had their insurance policies rescinded, reimburse consumers for out-of-pocket expenses and take corrective action.
- Health Net: \$3.6 million fine, \$7.2 million in waived insurance premiums, offer of new insurance for those who had their insurance policies rescinded, reimburse consumers for out-of-pocket expenses and take corrective action.

All told, the settlement provisions covered a staggering 85 percent of the market represented by the three companies - Health Net, Blue Cross and Blue Shield.

### *Targeting Insurance Fraud*

Insurance fraud drives up the cost of insurance for all consumers in the form of higher insurance rates, and that's why Commissioner Poizner made it a priority to crack down on fraud – to keep rates affordable.

Shortly after taking in 2007, Commissioner Poizner launched a new Advisory Task Force on Insurance Fraud that brought together public and private sector experts to develop innovative methods to combat insurance





fraud. Members of the task force include leaders from consumer protection groups as well as the judiciary, law enforcement community and insurance industry.



As a result, the following Task Force recommendations were implemented: fusion center participation and development, special investigation unit training, expansion and support of computer forensics technology in anti-fraud programs, creation of an outreach program to educate the public about fraud (vehicle arsons/owner give ups; staged auto accidents) and the enactment of suggested legislation for sharing information (SB 156).

Furthermore, Commissioner Poizner oversees the CDI Enforcement Branch, comprised of sixteen regional offices throughout the state. Since the beginning of his tenure in 2007, nearly 2,800 insurance fraud-related arrests have been made by CDI – more than any other three year period under any previous insurance commissioner.



Since January 2007:

- 2,598 suspects have been sentenced for insurance fraud-related activity;
- 305 months of community service have been sentenced as a result of CDI's enforcement work;
- 6,974 years probation and 1,180 years in jail have been doled out to suspects;
- \$2,774,038 in civil fines have resulted;
- \$3,018,033 in criminal fines have mounted;
- \$121,919,629 in restitution has been achieved;
- 1,724 cases have been handled by CDI's enforcement branch;
- \$49,632,842 has been the total premium loss calculated; and
- \$1,347,004,238 in potential loss, \$158,142,672 in actual loss and \$277,634,932 in suspected loss has been recorded.

### ***Keeping Uninsured Drivers Off the Road***

The California Low Cost Automobile Insurance Program (CLCA) was established through legislation in 1999 and is administered by the California Automobile Assigned Risk Plan. Initially introduced as a pilot program in 2000, upon taking office, Commissioner Poizner acted decisively to expand the CLCA program – which was only available in 16 counties – to all 58 counties in the state. CLCA was rolled out statewide on December 2007 and has brought many low income California consumers into compliance with the law and has served as a valuable and affordable insurance option to underserved communities.

### ***Standing Up for California's Seniors***

Committed to protecting all California consumers, especially the



most vulnerable among us, the Commissioner established the Senior Issues Working Group in response to an alarming increase in cases where seniors were targeted by agents for unsuitable annuities and long term care policy sales. The Working Group focuses on developing strategies to protect seniors from predatory insurance schemes and to ensure that seniors more clearly understand

their insurance choices. The group's work has resulted in a number of important developments for seniors, including investigations leading to enforcement actions against insurers selling improper annuities, continued



## Visionary Leadership: Innovative Results

### Four-Year Summary Report



localized outreach efforts to senior communities throughout California to inform and educate seniors of insurance issues, the provision of funds to local district attorneys to prosecute life and annuity financial abuse cases, brought by the increased investigative efforts by CDI and the launch of a resources section for seniors on the CDI website.

The Department also filed an enforcement action against Allianz Life Insurance Company for a systemic

pattern of cheating seniors in the sale of annuities. The action resulted in structural changes by Allianz in how it determines whether an annuity is suitable for a senior and payment of \$10 million in fines and other relief.

And in October 2010, Commissioner Poizner held an investigatory hearing to question the influx of rate increase applications from many long term care insurance companies to impose substantial rate hikes on policyholders.

### ***Guaranteeing That Insurers' Investments Do Not Support International Terrorism***

Commissioner Poizner is committed to using his powers as Insurance Commissioner to protect consumers by discouraging insurers from investing premium dollars in companies that prop up the Iranian regime. Iran's government is a state sponsor of terror, actively pursues nuclear weapons and threatens world peace.

In June 2009, the Commissioner launched a Terror Financing Probe to understand the extent of insurer investment in companies doing business with the Iranian nuclear, defense and energy sectors. While the Commissioner ascertained that none of the 1,300 insurers admitted to do business in California has direct investments in the Government of Iran or its instrumentalities, he discovered a considerable loophole through which many companies were making indirect investments. Under Commissioner Poizner's leadership, the Department worked to shut these indirect investments down.

Commissioner Poizner developed a list of 50 international companies (some well known, such as Royal Dutch Shell and Siemens, others not so well known) doing business with the Iranian nuclear, defense and energy sectors. To protect California policyholders and put pressure on the Iranian regime, the Commissioner requested that insurers commit not to invest in those companies in the future. More than 1,000 of the 1,300 insurers agreed to the



Commissioner's requested moratorium. In response to the Commissioner's call for responsible action, some insurers went further and voluntarily divested holdings in any of the 50 companies supporting Iran. At the end of 2009, insurers licensed to do business in California held \$2 billion of investments in

the 50 companies. As of March 31, 2010, those holdings had dramatically decreased to \$1.6 billion. To put these numbers in context, in 2009 - prior to Commissioner Poizner's initiative - insurers doubled their investment in Iran-related companies to \$2 billion. In the first three months of 2010, insurers reversed course and sold 20 percent of these holdings.

For financial reporting purposes, the Commissioner also treated insurer investments in companies in his list as "disqualified" in calculating insurers' available surplus.



### ***Workers' Comp: Maintaining a Lifeline for Injured Workers***

- The Commissioner has refused to order increases to the workers' compensation claims cost benchmark since January 2009, demanding that insurers utilize available cost-control mechanisms rather than pass inefficiencies on to California employers. With robust market competition, this requirement has resulted in stable workers' compensation premiums, with rates rising a mere 3percent over the last 2 years. During that period, rate increases of almost 30 percent were sought by industry groups.
- When the Workers' Compensation Insurance Rating Bureau requested a 23.7 percent increase in the benchmark in July 2009, primarily due to medical cost increases, the Commissioner held an investigatory hearing with testimony from representatives of insurers, self-insured employers and medical providers on best practices and efficiencies in the delivery of medical care to injured workers. The hearing resulted in 27 recommendations to improve the efficiency of the workers' compensation medical system.
- As a result of these, Commissioner Poizner established his Workers' Compensation Advisory Group, consisting of workers'





compensation stakeholder representatives, to provide input on current and pressing issues in the system and to offer suggestions for improvements to provide prompt benefits to injured workers in a cost-effective manner for employers.

- The Commissioner spearheaded major improvements to the composition and qualifications of the Board of Directors of the State Compensation Insurance Fund (State Fund), California's workers' compensation insurer of last resort and dominant insurer of small business. Before these changes, State Fund was reeling from allegations of lax governance and ineffective Board oversight of its activities, problems that were effectively resolved by the Commissioner's intervention.
- Concerns were expressed over the workers' compensation Claims Cost Benchmark process. Over a number of hearings, the Commissioner and his staff determined that the filing made by the WCIRB did not provide an accurate picture of how workers' compensation rates were set by insurers or what employers were actually being charged. Since the approved Claims Cost Benchmark is only advisory, insurers are free to follow or disregard the Commissioner's recommendation. The information on actual pricing for workers' compensation insurance by the insurers is missing from both the WCIRB filing and the process to approve the Claims Cost Benchmark.
- As a result of this review, it was apparent that changes in both insurer rates and premiums were much different than either what the WCIRB filed or the Commissioner recommended for the Claims Cost Benchmark, and that the Commissioner's prior approved Benchmark did not reflect what insurers were actually doing. Therefore, the Commissioner directed his staff and the WCIRB to implement changes to the process of evaluating the Claims Cost Benchmark and advisory pure premium rates to be approved. This includes the evaluation of the insurance industry's rate filings to determine the industry's pure premium rate level, the actual rates used by insurers and the final rate employers were actually being charged for their workers' compensation insurance. This will result in a clearer picture for California employers of what is actually happening with their workers' compensation premiums and the costs in the system.

In July 2009, as part of an effort to balance the budget, the Legislature passed ABX4 12, authorizing the Department of Finance to raid the assets

of State Fund. Budget analyses revealed that the Department of Finance intended to siphon \$1 billion out of State Fund. To protect small businesses and their workers, Commissioner Poizner filed a lawsuit to block this process. The lawsuit alleges that raiding State Fund to balance the budget violates the California Constitution, which creates and protects a workers' compensation system in California. Following the filing of the lawsuit, the Department of Finance ceased further efforts to raid State Fund.

### ***Protecting Hospitals, Doctors and Patients from Substandard Claims Processing***

In January 2008, the Department commenced the largest-ever enforcement action in U.S. history against PacifiCare Life and Health Insurance Company, a subsidiary of United Health Group, the largest health insurer in the U.S. The action is pending before an administrative law judge in the Office of Administrative Hearings in Oakland. The Department filed the action in response to a surge in complaints against PacifiCare following its acquisition by United in December 2005. Prior to the acquisition, PacifiCare was a well-functioning California health insurer. Complaints and a subsequent market conduct examination revealed more than 100,000 alleged violations of law by PacifiCare. The violations were due to failed claims processing procedures PacifiCare used in reimbursing and interacting with doctors, hospitals and patients in California. The collapse in claims processing wreaked havoc in the provider community.





Since commencing the hearing, the Department's lawyers have brought to light hundreds of thousands of additional violations. The Department is authorized to pursue penalties of as much as \$10,000 per violation.

***Ensuring Solvency of Companies During Financial Crisis***

During the worst financial meltdown since the Great Depression, Commissioner Poizner redoubled Department efforts to ensure the solvency of companies doing business in California. From a financial perspective, these companies have remained solvent. Poizner personally traveled to AIG headquarters in New York and sent a special investigator to ensure that California AIG customers were protected throughout AIG's restructuring process. Under his leadership, the Department of Insurance successfully stopped the Federal Reserve from pilfering assets from healthy AIG-owned insurance companies in California.

Commissioner Poizner also helped reposition California as a leader in the effort to help standardize insurance regulation in the midst of the financial crisis. He worked with the National Association of Insurance Commissioners to further this collaborative effort on a national scale.

***Improving the California Earthquake Authority (CEA), Increasing Options for Californians***

Commissioner Poizner was a leading force in moving the CEA towards a more realistic claims paying capacity, saving the CEA and its policyholders hundreds of millions of dollars in reinsurance costs during his term.

- Commissioner Poizner was selected by the Governing Board to lead the search for a new CEO. He coordinated a nationwide search resulting in the first hiring of a CEO for the CEA with an extensive insurance background. The new CEO was a former elected insurance commissioner and past president of the National Association of Insurance Commissioners who also had relevant experience in the private sector.
- During Commissioner Poizner's tenure, the CEA instituted greater than 50 percent discount for mobile homeowners who retrofitted their structures. Previously the discount had only been 5 percent.
- He also oversaw the development of additional policy options for CEA policyholders allowing them to elect coverages that better suited their individual needs.



- Commissioner Poizner traveled to Washington D.C. to work with federal legislators on California's exposure and vulnerability to earthquakes.
- He worked extensively with Senator Dianne Feinstein's office on federal legislation for earthquake protection and to raise awareness in California on the need to be better prepared for earthquake risk.
- Commissioner Poizner tasked the CEA with developing metrics so that they could measure the effectiveness of their media campaigns.











## BEING THERE FOR DISASTER VICTIMS

Throughout his tenure, Commissioner Poizner has placed effectively fulfilling the needs of disaster victims at the forefront of his priorities. Following disasters, Commissioner Poizner has successfully sought to ensure that survivors realize they are not alone in navigating the process of assessing their losses and starting their recoveries.

### *Assisting in Crop Freeze Recovery Efforts*

In 2007, just weeks after Commissioner Poizner took office, California's agricultural community was hit with devastating crop losses due to freezing temperatures in the state's central valley. Approximately 90 percent of crops in California are covered by crop insurance, and during a state of emergency, the state's claims adjusters are in high demand, often causing severe delays. Losses were estimated at more than \$1 billion dollars to California's agricultural industry, including approximately \$700 million in damages to citrus crops, and extensive damage to avocado and strawberry crops. Anticipating that the magnitude of the freeze and its devastation to crops would create a flood of new insurance claims and a shortage of qualified insurance adjusters to process them, Commissioner Poizner issued an Emergency Declaration that expedited insurance claims by allowing out-of-state insurance adjusters to be immediately dispatched to California's agricultural community to assist.





### ***Holding Wildfire Insurance Recovery Forums***

Over the last four years, California suffered through the most damaging consecutive wildfire seasons on record. Five of the top 20 worst fires in state history (in acres burned and structures destroyed) occurred in 2007 and 2008. The Sayre fire destroyed 604 structures, making it the eighth most damaging wildfire since the California Department of Forestry and Fire Protection began keeping damage records in 1932. In 2007, nearly one million Californians were forced to evacuate their homes – the largest evacuation in the state’s history. Approximately 1,500 homes were destroyed statewide that year. Commissioner Poizner acted quickly and decisively by making every resource available to wildfire survivors, including:

- Declaring an insurance emergency and authorizing out of state adjusters to come to California and assist victims in processing their claims so they could be paid as quickly as possible. As a result of Commissioner Poizner’s actions, more than 500 emergency insurance adjusters registered with CDI to help expedite insurance claims for wildfire victims.
- Hosting a number of Insurance Recovery Forums for fire survivors in South Lake Tahoe, San Bernardino, Malibu and multiple forums throughout San Diego, where he met one-on-one with fire survivors to discuss their needs and expedite recovery efforts. These forums brought local, state and federal officials together, in conjunction with representatives from the insurance industry to aid fire survivors.
- Brokering a voluntary written agreement with insurance companies following wildfires in Southern California in 2007. After gathering feedback firsthand from fire survivors at a series of Insurance Recovery Forums, Commissioner Poizner personally called upon insurance companies to comply with his proposed reforms to the claims handling process, which led to much improved and more responsive claims handling practices. In 2010, Commissioner Poizner confirmed that the original group of participating insurers, which represent 72.1 percent of the market share for homeowners’ multi-peril insurance, still consider this voluntary agreement to be in full effect.

Between 2008 and 2010, Commissioner Poizner deployed CDI consumer information experts and held numerous Insurance Recovery Forums to help assist survivors of all major wildfires, including Californians impacted by the Tea Fire, Sayre Fire, Freeway Complex Fire, Marek Fire, Humboldt Fire, Ophir Fire, Summit Fire and Jesusita Fire. Additionally, after destructive



wildfires struck in Southern California, Commissioner Poizner declared an insurance emergency, which enabled more than 300 emergency insurance adjusters to register with the Department of Insurance to help expedite the processing of insurance claims for victims in Southern California's fire-ravaged communities of Sylmar and Anaheim.

### ***Recovering Claims for Wildfire Survivors***

Commissioner Poizner also led the charge to help recover millions of dollars for wildfire survivors. Through his intervention on behalf of 2007 wildfire survivors, Commissioner Poizner recovered more than \$12.7 million from insurance companies by standing up for consumers who had been shortchanged. Commissioner Poizner also recovered more than \$17 million for 2008 wildfire survivors by fighting for consumers and mediating disputes with their insurers. CDI was able to recover these funds for consumers who notified the Department of their troubles and suspected unfair treatment by their insurer.

Commissioner Poizner also held insurance giant AIG accountable for its action after receiving complaints from fire survivors in the 2008 Sayre Fire in Sylmar. As many wildfire victims attempted to rebuild their lives, they found that the policy limits being offered by AIG were insufficient to replace their mobile homes. Commissioner Poizner took immediate action and urged AIG to offer the higher policy limits to all wildfire victims. After weeks of negotiations, New Hampshire Insurance Company (an AIG company) agreed to offer its insureds the additional coverage being sought by CDI. Commissioner Poizner's actions resulted in up to \$46 million in additional coverage for fire survivors, an average of about \$100,000 to \$125,000 in additional coverage per policy.

### ***Addressing the Problem of Underinsurance***

Through his direct contact with recovering wildfire survivors, Commissioner Poizner immediately recognized a significant problem plaguing too many California homeowners – underinsurance. Commissioner Poizner spearheaded a major effort to address this statewide problem by:

- Working closely with the Legislature to craft AB 2022, which drastically improves the California Residential Property Disclosure Form, making it more accurate and easier for consumers to read. The bill mandates specific language that must be provided to anyone shopping for homeowners' insurance, laying out a checklist of the major variables in insurance policies;





- Proposing regulations that will provide more accurate and reliable estimates of what it might cost to completely rebuild a destroyed home. Such estimates were previously unregulated, and led homeowners to believe they needed less coverage than they truly did in the event of a disaster. These regulations are expected to be finalized by the end of 2010; and
- Touring the state throughout his term as Insurance Commissioner, urging all consumers to proactively prepare for wildfires, and to make sure they are adequately insured.

### ***Responding to the San Bruno Fire Tragedy***

In September 2010, an underground natural gas transmission line owned and operated by Pacific Gas & Electric Company (PG&E) exploded in the Glenview neighborhood of San Bruno. The explosion and ensuing firestorm, affecting an area of about 10 acres, resulted in the loss of eight lives, the destruction of 35 homes and an estimated cost of damages and cleanup likely to exceed \$50 million. Commissioner Poizner immediately responded by dispatching senior staff and investigators from CDI's legal and fraud divisions, held a meeting with PG&E and insurers to ensure a coordinated effort to help victims and conducted an Insurance Recovery Forum in San Bruno to assist victims.



## **INCREASING COMPETITION IN THE MARKETPLACE**

With a background as a successful entrepreneur, Commissioner Poizner understands the benefits that a robust marketplace provides for consumers. Commissioner Poizner infused his entrepreneurial expertise into his role as the state's top consumer watchdog, and the results proved invaluable for consumers.

### ***Achieving Auto and Homeowners Insurance Rate Reductions for Consumers***

Since taking office, Commissioner Poizner has worked to ensure an efficient and competitive insurance market. Under Commissioner Poizner's leadership, auto insurance rates have decreased by more than \$1.2 billion, while homeowners insurance rates have decreased by more than \$382 million. These rate decreases are representative of Commissioner Poizner's longstanding commitment that consumers receive the best deal possible in meeting their insurance needs.

*"The fact that Poizner is taking a firm stand is good for California and hopefully, will reverberate across the country," said Amy Bach, executive director of San Francisco-based consumer advocacy group United Policyholders. (On Allstate's excessive homeowner's insurance premiums.)*

— Los Angeles Times

May 24, 2007





***Increasing Options for Drivers Through Pay-As-You-Drive Auto Insurance***

Commissioner Poizner is also committed to increasing choices for consumers while bolstering competition in the marketplace. In 2009, the Commissioner made significant progress on these fronts by implementing regulations that enabled insurers to offer consumers another auto insurance option, allowing rates to be based on actual miles driven as opposed to estimated miles driven. By mid-2010, two auto insurers had already filed to offer this kind of coverage for consumers, in addition to their traditional estimated-mileage coverage.

***Reforming Title Insurance to Eliminate Unnecessary Costs to Consumers***

When Commissioner Poizner took office, illegal kickbacks by title insurers to real estate agents happened frequently. In an effort to eliminate



abuses and unnecessary systemic costs, Commissioner Poizner developed regulations and worked to pass legislation to prohibit kickbacks (referred to as “inducements” or “rebates”) by title insurers to real estate agents and others. That practice distorts the market for title insurance and drives up costs to homeowners, who generally must buy title insurance as part of the sale closing process.

With Commissioner Poizner’s involvement, the Legislature in 2008 passed SB 133, which is the first law of its kind to crack down on illegal inducements. Since SB 133 went into effect, the Department brought numerous enforcement actions against individuals and title insurers, underwritten title companies and controlled escrow companies to punish illegal marketing activities, imposing penalties of more than \$15 million. California is the first state in the country to adopt a law of this kind, and this bold stroke effectively ended illegal kickbacks.

## **IMPROVING DEPARTMENT EFFICIENCY**

Throughout his career, Commissioner Poizner has prided himself on a strong penchant for modernization and efficiency that carried over into his work at CDI. As a result, progress on this front also led to improve efficiency in the insurance market, thanks to his emphasis on encouraging good business practices and innovative use of technology. He held the Department to the same high efficiency standards, cutting the discretionary budget by 13 percent, or \$17.7 million. The Commissioner firmly believed that while companies have a responsibility to consumers to operate efficiently, government has the same responsibility to all Californians.



***Decreasing Operating Expenses***

Shortly after taking office, Commissioner Poizner developed a strategic plan that clearly outlined CDI's priorities, which focused on modernizing and increasing efficiency and transparency. He then conducted the first-ever top-down review of CDI to ensure that its resources were being used effectively to further these priorities. Finally, a business process survey was used to uncover additional opportunities for improvement. The top-down review showed that reductions in overhead and vacant position openings could reduce the Department's budget by 10 percent. In January 2009, Commissioner Poizner ordered his Executive Staff to implement the savings. By November 2009, the Commissioner was able to reduce the Department's discretionary budget by even more –13 percent, which included a reduction in the Department's target size by nearly 200 employees. These reductions were accomplished without layoffs or furloughs.

Commissioner Poizner's commitment to improved efficiency also led him to order top-down reviews of other non-CDI entities as well, such as State Fund, Workers' Compensation Insurance Rating Bureau (WCIRB) and California Insurance Guarantee Association (CIGA). The Department of Insurance has primary oversight authority over these organizations. The top-down-reviews of these entities initiated by Commissioner Poizner were the first ever conducted. Action taken as a result of those top-down reviews included:

- WCIRB – After Commissioner Poizner voiced concerns about the WCIRB's standards and procedures for data collection, the Bureau reevaluated their ratemaking methodologies and developed its own "Overall Ratemaking Methodologies Potential Long-Term Enhancements Evaluation Plan." WCIRB also established a task force of independent stakeholders to undertake a comprehensive review of the California Workers' Compensation Experience Rating Plan. The task force made a series of recommendations to enhance the transparency and effectiveness of the Experience Rating Plan.
- State Fund – Commissioner Poizner issued many recommendations based on the top-down review of State Fund, including the appointment of key management positions to ensure proper oversight.
- CIGA – Recommendations included that CIGA conduct a comparative analysis of the policy governance model similar to other non-profit entities, which focuses on governance of "ends" and



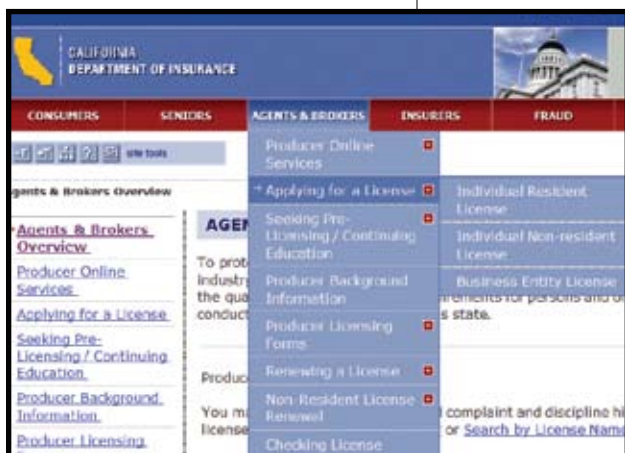
not “means.” It was also recommended that the Board hold an annual strategic planning session in which strategic objectives are set and evaluated.

### ***Expanding electronic license processing***

In 2007, Commissioner Poizner also instituted an expansion of CDI’s online license application capacity to service not only individuals but businesses as well. This allowed online registration coupled with filing agent endorsements and terminations which are used to track agents as they switch companies. Even though submittals to the Department’s Licensing Services Division were rising by about 7.5 percent per year, processing time has decreased from more than two months to between two and four weeks.

### ***Reducing Brokers’ Fees***

Most of California’s insurance agents, brokers and adjusters work in small businesses. Commissioner Poizner recognizes the importance of these businesses to our economic future and became the first elected Insurance Commissioner to reduce broker’s fees since Proposition 103 passed. Commissioner Poizner reduced fees on agents, brokers and insurers, sending a total of \$20 million back into the marketplace for the first time ever — this resulted in annual savings for insurers and more than 300,000 licensed insurance agents, brokers and adjusters. The Commissioner broke with the longstanding practice of raising fees on these small businesses. These fee reductions were made possible by the cuts made to CDI’s discretionary budget after Commissioner Poizner identified opportunities for improved efficiency.



## **REFORMING THE HEALTH INSURANCE MARKET**

Commissioner Poizner started his term in office with a number of key benchmarks for success in mind, not the least of which was reforming the health insurance market.

### ***Defending Consumers Against Unjustified Rate Hikes***

Commissioner Poizner took decisive action to ensure that health insurance rates in the individual health insurance market in California were legal and not excessive. Commissioner Poizner heightened the review process for rate

increases proposed by insurers. For significant increases affecting a sizable numbers of Californians, Commissioner Poizner referred the insurers' submissions to an independent outside actuary and posted the insurers' submissions and the Department's actuarial findings on its website. The Commissioner's heightened scrutiny led insurers to scale back rate increases and submit only reasonable, actuarially justified rates. For example:

- In 2010, Anthem Blue Cross filed an average 25 percent rate hike, with some policyholders facing up to a 39 percent rate hike. As a result of Commissioner Poizner's call for an outside, meticulous review, multiple math errors were uncovered, and Anthem subsequently withdrew the filing. When Anthem ultimately submitted a new filing, it was, on average, 11 percent less of a rate increase than their original filing.
- Aetna filed for an average 19 percent rate hike affecting 65,000 ratepayers, but was forced to withdraw its filing due to mathematical errors found in its rate filing.

### ***Increasing Transparency for All Health Insurance Filings***

In addition to his action to ensure that health insurers are not taking advantage of consumers by raising rates based on erroneous calculations, Commissioner Poizner created unprecedented and unparalleled transparency for health insurance rates by posting all such filings for the individual market on the CDI website. Interested parties can also submit comments that will be reviewed by California Department of Insurance lawyers and actuaries.

### ***Creating the Nation's First PPO Report Card***

Before 2009, consumers lacked the ability to find relevant information about their PPO plan and about how successful their PPO is in providing high quality care and good customer service. Recognizing this information gap, Commissioner Poizner undertook the publication of the nation's first report card on the quality of care for PPO health plans. Commissioner Poizner successfully negotiated with Aetna, Blue Shield, Cigna, Health Net, WellPoint and United to collect data on quality of care and patient satisfaction and make this information public. The plans were rated on measures previously only used for HMOs, which are regulated by the California Department of Managed Health Care. In November 2010, the Department of Insurance published the second PPO report card, based on additional data gathered in 2009.



*"This is an opportunity to give patients meaningful information about both preventive and acute care with specific examples and without pulling punches," said Jerry Flanagan of Consumer Watchdog.*

**— San Francisco Examiner  
August 6, 2007**

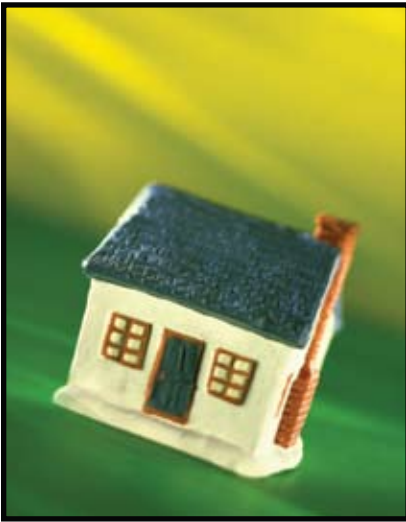


## MAKING ENVIRONMENTAL ADVANCES

Believing that helping the environment and fostering a competitive marketplace do not have to be mutually exclusive, Commissioner Poizner worked throughout his term to increase environmentally-conscious insurance options for consumers and improve efficiency at CDI.

### ***Approving First Homeowners Green Rebuilding Policies***

Commissioner Poizner approved California's first green homeowners insurance policy, and encouraged other insurers to explore environmentally-friendly options for consumers. This landmark coverage enabled California homeowners with conventional homes to rebuild to the latest environmental standards after a loss. The policy provides coverage for costs typically not covered in traditional homeowners policies, like green recertification fees and other additional expenses environmentally-conscious homeowners may incur when rebuilding. Under the type of coverage approved by Commissioner Poizner, California homeowners can for the first time rebuild covered homes, under Leadership in Environmental and Energy Design (LEED) standards set by the U.S. Green Building Council. The first-of-its-kind policy provides up to \$25,000 for a LEED-certified architect to oversee the rebuilding of the home, and the LEED application process.



### ***Rewarding Californians For Driving Less***

In 2009, Commissioner Poizner implemented regulations that enabled insurers to offer consumers another auto insurance option, allowing rates to be based on actual miles driven as opposed to estimated miles driven. California is among the first states in the nation to pave the way for pay-as-you-drive insurance products. This kind of coverage has a broad impact on public safety and the environment – through market forces. Pay-As-You-Drive rewarding Californians for driving less, reducing the environmental strain of vehicle emissions. By mid-2010, two auto insurers have already filed to offer this kind of coverage for consumers, in addition to their traditional estimated-mileage coverage.









***Increasing Efficiency, Decreasing Paper Waste***

In addition to transformations within the Department to cut down on paper waste, Commissioner Poizner made it possible for insurance agents and brokers have a paperless license renewal. Every two years, approximately 300,000 agents and brokers must file to renew their licenses. These filings created a tremendous amount of paperwork. Under Poizner's sponsorship, SB 1279, was passed and signed into law. The law eliminated statutory provisions that require paper-based transactions that can be done electronically, saving time, energy and the environment, and allowed CDI to remove barriers that prevented it from becoming more environmentally sensitive. SB 1279 received bipartisan support, and received no negative votes in either the Senate or the Assembly. Commissioner Poizner sponsored this bill in order to revise previous laws, some dating back to the 1930s, which mandated certain paper-based transactions, even though they can be done more effectively today electronically.









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